Distr.
GENERAL

IDB.13/10/Add.1
PBC.10/12/Add.1
1 June 1994

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Industrial Development Board

Thirteenth session
Vienna, 7-11 November 1994

Programme and Budget Committee

Tenth session
Vienna, 20-24 June 1994
Item 6 of the provisional agenda

MEDIUM-TERM PLAN, 1996-2001
(INCLUDING GENERAL CEILING FOR THE BIENNIUM 1996-1997)

Draft medium-term plan, 1996-2001

Addendum

Preview of the first biennium 1996-1997 and preliminary indicative general ceiling

Submitted by the Director-General

Summary

Indicates the general ceiling for the biennium 1996-1997 based on anticipated financial and human resources and on programme activities and is submitted in compliance with General Conference decision GC.2/Dec.23 (b)(v)d.

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Introduction

1. The present addendum is submitted pursuant to General Conference decision GC.2/Dec.23, subparagraph (b)(v)d, which states that the draft medium-term plan should indicate a general ceiling for the following biennium based on anticipated financial and human resources and on programme activity.

2. In the introductory chapter of the draft medium-term plan for the period 1996-2001 a description is given of the rapid socio-economic changes in the external environment of UNIDO. Those changes include new industrial development strategies of Member States that have led Governments to modify their economic policies, assume a new promotional role in the industrialization process and strengthen the private sector in a world increasingly shaped by market forces. In tandem with those changes, the demand for UNIDO services has changed over the past few years in terms of content, form and end-users. The Organization now serves a larger and more diverse clientele. The need of developing countries for international support and technical cooperation in the field of industry as the prime mover of sustained socio-economic development is growing and becoming more complex.

3. The adjustment to these new demands was reflected in the recent reforms of the Organization. The Director-General also introduced new guidelines for the work programme in which the emphasis is on service quality and technical excellence based on UNIDO country and regional support strategies. Those measures need to be matched by a stronger field presence.

4. The outcome of the reform is reflected in the programme and budgets for 1994-1995 (GC.5/14/Rev.1 and Corr.1), approved by the General Conference at

V.94 24190 7388E

Distr.: 7 June 1994

its fifth session in decision GC.5/Dec.18. However, the regular budget has experienced negative real growth for the fourth biennium in succession: 3.2 per cent in 1988-1989, 1.5 per cent in 1990-1991, 0.5 per cent in 1992-1993 and 1.6 per cent in 1994-1995. In the ultimate analysis, regular budget resources for 1994-1995 show a negative growth of some 6.6 per cent in real terms over those approved for 1986-1987.

5. At present, the Organization faces a serious financial crisis owing to the decline in income derived from technical cooperation activities.

6. In the past, the level of technical cooperation activities of UNIDO depended essentially on funds provided by the United Nations Development Programme (UNDP). In the years from 1987 to 1991, more than one half of the Organization's funds for technical cooperation projects originated from UNDP: 72.4 per cent, 65.1 per cent, 61.5 per cent, 60.2 per cent and 51.6 per cent, respectively. With the introduction of the UNDP successor arrangements for support cost reimbursement in 1992, the first year of the fifth programming cycle (1992-1996), funds available to the specialized agencies of the United Nations, including UNIDO, declined dramatically. This decline continues to date. Whereas the previous mode of support cost reimbursement is being phased out, the new arrangements have not yet entered fully into force.

7. In 1992 and 1993, UNDP funds accounted for 43.4 per cent and 34.6 per cent respectively of the total technical cooperation delivery of the Organization. Whereas total technical cooperation dropped by $52.8 million from the bienniums 1990-1991 to 1992-1993 (from $307.1 million to $254.3 million), the drop in UNDP funds over the same period was significantly higher: $72.1 million. This testifies to the increased capacity of UNIDO to attract funds from sources other than UNDP.

8. The recent organizational reform will further strengthen this capacity in the coming years. However, the full realization of the enhanced service capacity of the Organization is critically contingent upon a more decentralized, needs-oriented operation at the field level that will require a stronger UNIDO Country Director (UCD) programme, as described in paragraphs 12 to 14 below.

9. The Director-General therefore proposes a resource growth of 1.9 per cent in the regular budget for 1996-1997 so as to improve the ability of the Organization to respond directly to the demands of Member States for services. This improved response capability would yield an increase in both technical cooperation delivery and operational income, thus helping to alleviate the financial crisis besetting the Organization.

I. PROGRAMME GROWTH

10. In the next biennium, the Organization will increase its efforts to provide quality services to Member States. It will endeavour to reassert itself and offset the decrease in technical cooperation delivery which has occurred over the past few years in the wake of drastic changes in the external environment.

11. The decrease in technical cooperation activities and consequent contraction in operational support income has given rise to resource constraints in many substantive programmes that now need to be overcome. The present proposal for resource growth under the regular budget will, however, be limited to the absolute minimum needed to reinvigorate and expand only one key programme: the UCD programme.

UNIDO Country Director programme

12. The UCD programme is of vital and increasing importance to UNIDO. First and foremost, as the private sector assumes a more pronounced role in the industrial development of the developing countries, the number and range of the clients of UNIDO are increasing. UNIDO will thus have to expand its presence in various countries and direct increased efforts towards programme development, negotiation and coordination at the field level. Secondly, the shift towards national execution of projects and the emphasis on national capacity building have added further to the essentiality of improved field representation as a precondition for identifying and delivering administrative and technical services. Thirdly, the shift from traditional UNDP financing to trust fund and Industrial Development Fund financing as well as the expected increase of funding through the World Bank and other multi- and bilateral agencies will make it necessary to establish direct contacts with a wide range of entities in individual developing countries. Fourthly, as developing countries increasingly pursue decentralization policies, the associated demand for UNIDO services will change and the field offices will need to reach out more rapidly and efficiently to various regions in developing countries. Fifthly, UNIDO will also have to respond to the decentralization efforts of the United Nations system as called for in General Assembly resolutions 44/211 and 47/199.

13. The maintenance of the current financing level of the UCD programme is unsure beyond 1996. UNDP is considering discontinuing its financial support to the programme at the end of the fifth programming cycle. As indicated in document IDB.13/3-PBC.10/4, the UNDP sectoral support programme currently finances 21 field offices (14 fully and 7 partially funded). In case of suspension of UNDP funding, the programme would lose over 50 per cent of its current capacity. Under these circumstances, achievement of the desirable target of 50 offices as recommended by the policy-making organs of UNIDO would be a daunting task.

14. Every effort will be made to seek alternative funding modalities, including self-financed trust fund and third-party trust fund arrangements as well as by having host countries bear the local support costs of the UCD offices. However, given the difficulties the Organization has been facing in attracting extrabudgetary resources to finance the UCD programme, it would be advisable to secure the minimum resources necessary under the regular budget. It is thus proposed that at least seven offices be financed from the regular budget. This represents resource growth of approximately $3.6 million in the 1996-1997 biennium, as shown in table 1 below. Nevertheless, this amount may not suffice to maintain the current number of field offices. However, if the extrabudgetary resources mentioned above are secured, UNIDO will

be able to maintain the current level and possibly expand the number of field offices.

Table 1

Resource requirements
(In thousands of US dollars at 1995 rates)

	Cost
New posts	
4 D-1, 3 P-5 and 14 GS	2,772.8
Other costs	
Local support costs	824.6
Total	3,597.4

Regular Programme of Technical Cooperation

15. The proposed increase in resources for 1996-1997 to fund the UCD programme would also entail an increase in the Regular Programme of Technical Cooperation, which is equivalent to 6 per cent of the regular budget in accordance with Annex II, paragraph B, of the Constitution. The increase under this component would amount to $229,600.

II. GENERAL CEILING

16. The financial implications of the proposals to increase the number of field offices in the regular budget and the associated increase in the Regular Programme of Technical Cooperation have been tentatively calculated at $3,827,000. This is equivalent to a real growth of 1.9 per cent in the revalued 1994-1995 budget base (see table 2 below).

Table 2

Summary of budget ceiling, 1996-1997
(In thousands of US dollars at 1995 rates and at US$1 = AS 12.90)

	Amount	
Revalued 1994-1995 base		
1994-1995 net appropriation	196,310.3	
Revaluation of the 1994-1995 appropriations at 1995 rates	6,668.7*	
Revalued base at 1995 rates		202,979.0
Growth		
Programme	3,597.4	
Technical cooperation component	229.6	
Growth 1996-1997		3,827.0
Budget ceiling 1996-1997		206,806.0
Rate of real resource growth		1.9 per cent

* The revaluation calculation includes the redeployment of $1.9 million of savings in professional salary costs to the UCD programme in the 1994-1995 biennium, as described in document

17. Determination of the revalued budget base takes account of the biennial nature of the budgetary estimates of UNIDO, which requires an adjustment of the 1994-1995 approved resource requirements to the price levels anticipated for 1995.

18. Common staff costs, which are budgeted as a percentage of standard salary costs (38 per cent), will also be amended in future budgets to reflect the variation in the levels of common staff costs between Professional-level (45 per cent) and General Service-level (29 per cent) posts. The inclusion of separate common staff cost estimates for Professional-level and General Service-level posts will not change the overall level of staff costs for the Organization. However, as a result of the change, adjustments will be required in the budgeted estimates for cost reimbursement income to be received from other organizations in the Vienna International Centre sharing in the cost of Buildings Management. Those shared costs include a relatively large number of General Service staff. Since the Buildings Management cost-sharing modalities are based on the principle of sharing actual costs, the inclusion of estimates in the budget that are higher than actual common staff costs leads to variances between budgeted income and actual income. The revaluation of the 1994-1995 base has been adjusted to take account of the change in budgeted income.

19. A comparison of current 1994-1995 projections for inflation and other cost increases with those included in the 1994-1995 programme and budgets (GC.5/14/Rev.1) does not indicate any significant variations. The average inflation factor of 5.7 per cent included in the 1994-1995 budget has therefore been applied to revaluing the resource requirements to 1995 prices.

20. During the biennium 1994-1995, the United Nations will assume responsibility for certain administrative services that were previously provided by UNIDO on a cost reimbursement basis. Although the joint administrative arrangements have proved to be cost effective to both UNIDO and the United Nations Office at Vienna (UNOV) thanks to economies of scale, the United Nations has decided to establish separate administrative services that are currently being set up. An adjustment to the 1996-1997 budget will thus be required to reflect the loss of income to the Organization following the transfer to UNOV of administrative services currently provided by UNIDO. The reduced level of administrative functions in the 1996-1997 biennium resulting from the transfer of services will not lead to a corresponding reduction in staff since UNIDO will need to retain appropriate levels of qualified staff to support its own functions.

21. The proposed transfer of responsibility for the management of language and documentation services from UNIDO to UNOV is expected to become operational as of 1 January 1995. The new arrangements, which will include a revised methodology for cost-sharing, could lead to cost reductions through increased efficiency in the utilization of staff resources. The potential savings cannot be anticipated at this juncture because the revisions to the United Nations budget and the details of the cost-sharing modalities have not been finalized.

22. In the event that the proposals related to the provision of language and documentation services might yield resource reductions over the

in respect of other administrative costs, it would be proposed to redeploy any such savings towards strengthening the substantive programmes of UNIDO.

23. The programme and budget proposals for the 1996-1997 biennium to be considered by the Programme and Budget Committee at its eleventh session will provide a more detailed elaboration of the programme of work and financial resource allocations. Those proposals will take account of the deliberations of the Committee and of the Industrial Development Board on the medium-term plan at their tenth and thirteenth sessions, respectively.